GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:1180
ANSWERED ON:24.10.2008
ASSISTANCE TO SMALL AND MEDIUM ENTREPRENEURS
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Will the Minister of FINANCE be pleased to state:

(a) the details of financial facilities available to Small and Medium Entrepreneurs (SMEs) through banks;

(b) whether the quantum of loan provided to SMEs is very low in comparison to the loan provided to the industrial sector;

(c) if so, the details thereof during the last three years and the current year;

(d) whether the Reserve Bank of India has observed that the banks are not fully equipped to promote SMEs and they are not properly being financed by banks;

(e) if so, the details thereof; and

(f) the steps taken/being taken by the Government to simplify the banking norms to provide assistance to SMEs in the country?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a): Besides normal credit facilities available from Public Sector Banks for Business Organisations including those in SME sector, under Credit Guarantee Scheme,SIDBI is providing a special collateral free and third party/guarantee free credit facility to Micro and Small Enterprises by Member Lending Institutions upto a ceiling of Rs.50 lakh per borrower,guaranteed by Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

(b) & (c) Yes,Sir.The quantum of credit provided by the banks to Industrial and SME Sector over the last three years is given below:

(Rs. in crore)

Year	Total credit by public sector banks to SME Sector	Industrial Sector
2005	68000	438503
2006	82434	556357
2007	127322	731157

(d) & (e): In the report on Currency and Finance 2006-08 (Vol.II) regarding the Banking Sector in India on `Emerging Issues and Challenges`,RBI has observed that `the difficulties faced by the banks in extending credit to SMEs mainly stem from informational opacity and lack of credit history. Unlike large corporations, small businesses are typically much more infbrmationally opaque, because they often do not have certified audited financial statements to yield credible financial information on a regular basis. Also, these firms usually do not have publicity traded equity or debt, yielding no market prices or public ratings that might suggest their

quality `Other reasons often stated by banks for the weak growth of SME credit are
(i) the large number of unregistered enterprises, which require different lending and risk management techniques, processes, and stills;
(ii) lack of a secured transactions law to regulate assignment and registry of movables; and
(iii) the difficulty and high cost of registering property and enforcing contracts.`

(f): Government of India had announced a Policy Package in Parliament on August 10,2005 advising all Scheduled Commercial Banks including Public Sector Banks to fix their own targets for funding Small and Medium Enterprises (SMEs) in order to achieve a minimum 20% year-on-year growth in credit to the SME sector. Further, Reserve Bank of India (RBI) has formulated a scheme to encourage banks to establish mechanisms for better co-ordination between their branches and branches of SIDBI for co-financing of SMEs on mutually agreeable operational modalities. Modification in Credit Linked Capital Subsidy Scheme for upgradation of SSI sector,introduction of Credit Rating Scheme by National Small Industries Corporation and setting up of SME Rating Agency by SIDBI are some other measures taken by the Govt and RBI to increase the credit flow to SME sector.Further,Micro,Small and Medium Enterprises Development Act,2006 has been enacted to cater to the needs of SME sector. Following the Budget Announcement 2008-09, RBI has allocated Rs.1600 crore for the MSME (Refinance) Fund and Rs.1000 crore for the MSME (Risk Capital) Fund to SIDBI.